

IMPLEMENTING GASB STATEMENT NO. 39

Governmental Accounting Standards Board (GASB) Statement No. 39 provides criteria for determining whether certain organizations should be included in a government's financial statements based on the nature and significance of the organization's relationship to the government. The most common example of these relationships are universities and community colleges and their foundations. However, the Statement also applies to school districts and is effective for fiscal year (FY) 2003-04 financial statements.

Under the Statement, a legally separate, tax-exempt organization, such as a parent-teacher organization, should be reported in a district's financial statements when all of the following criteria are met:



- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the district or its constituents. This criterion would be met if an organization obtains, seeks to obtain, holds, or invests resources that currently or will ultimately be used to benefit the district or its constituents.
- The district is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. The ability to access resources does not necessarily imply control over an organization or its resources, but could be demonstrated by historically having received resources or having requests for resources honored.
- The economic resources an individual organization received or held are significant to the district. Significance is measured by individual organization (i.e.,

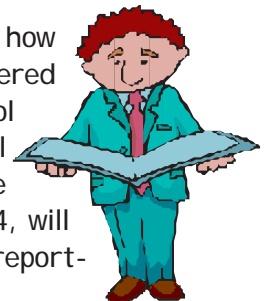
each parent-teacher organization). The district should not aggregate multiple organizations to determine significance.

GASB did not provide a specific definition of what constitutes significance. However, it is not intended to include clearly inconsequential resources. Significance should be considered as a qualitative measure, and not just a quantitative measure. For example, would the district governing board or a taxpayer/citizen of the district consider the amount of resources provided or held by the organization to be significant to the district? Such an analysis may result in including organizations in the district's financial statements that the preparer or auditor might consider immaterial.

The above criteria are meant to be applied in order. For example, it should be determined that the organization is a legally separate, tax-exempt organization before considering whether the resources are received or held for the direct benefit of the district or its constituents.

Districts preparing financial statements should make a list of all organizations that could be considered a component unit under GASB 39. The district should then obtain information from these organizations to prepare an analysis of why the organization should or should not be included in the district's financial statements. The analysis should be documented in writing and retained for review by the district's auditors.

GASB 39 also provides guidance on how to report any organization considered to be a component unit. The School District Pro Forma Financial Statements issued by our Office for the year ending June 30, 2004, will include additional information on reporting component units.



GASB STATEMENT NO. 34 (GASB 34)

GASB 34 is now effective for all districts that prepare financial statements. FY 2003-04 is the final year of implementation for the new financial reporting model. For specific guidance on the requirements for depreciation, capital assets, and financial reporting under GASB 34, refer to USFR Memorandum No. 196. For districts not required to have a financial or single audit, GASB 34 will apply if your adopted M&O Fund budget or your expenditures of federal awards increase to above the thresholds, which would require an audit. See USFR Memorandum No. 204 for more information.

Questions & Answers

Question: How should districts record lease-to-own transactions entered into by the School Facilities Board to provide school facilities to a district pursuant to Arizona Revised Statutes §15-2004?

Answer: The following accounting entries illustrate how to properly report this type of lease-to-own transaction.

Fund-Based Financial Statements	Debit	Credit
Cash on Deposit with the County Treasurer	XXXX	
Revenue from State Sources—Restricted (To recognize the revenue received from the School Facilities Board for construction)		XXXX
Purchased Professional & Technical Services	XXXX	
Construction Services	XXXX	
Cash on Deposit with the County Treasurer (To recognize the expenditures related to constructing the new school)		XXXX
Government-wide Financial Statements		
Cash	XXXX	
Capital Contribution (General Revenues) (To recognize the revenue received from the School Facilities Board for construction)		XXXX
Construction in Progress	XXXX	
Cash (To recognize the expenditures related to constructing the new school)		XXXX
Buildings and Improvements	XXXX	
Construction in Progress (To recognize the asset once construction is completed)		XXXX

ADVICE OF ENCUMBRANCE



Districts not participating in the Accounting Responsibility Program that have liabilities payable for levy funds at June 30 must prepare an Advice of Encumbrance and submit it to the County School Superintendent by July 18. USFR Memorandum No. 188 provides the Advice of Encumbrance form that districts should use for FY 2003-04.

RECORD RETENTION SCHEDULES REVISED

The Arizona State Library, Archives and Public Records, Records Management Division has revised the *Records Retention and Disposition for Arizona School Districts* manual. The revised manual is available on their web site at www.lib.az.us/records.



SPOTLIGHT ON THE OFFICE OF THE AUDITOR GENERAL'S WEB SITE

Our Web site, www.auditorgen.state.az.us, has been redesigned to be more user-friendly. All school district related publications can now be found in one location by clicking on School Districts under Reports & Publications. This includes manuals, memorandums, forms, newsletters, and any reports issued for a specific district. Along with the new look, we have added a helpful feature for districts' frequently asked questions (FAQs). Districts can use these FAQs to help answer their questions, thereby saving a phone call or e-mail. Hope you like the new look.



USER MEMO UPDATE

Since our last newsletter, we have issued USFR Memorandum No. 205—School District Annual Budget Revisions for FY 2003-04 and USFR Memorandum No. 206—Fiscal Year 2004-05 School District Annual Expenditure Budget Forms, Budget Supplement, Budget Summary, Budget Work Sheets, Truth in Taxation Work Sheet, Hearing Notice of Tax Increase, and Instructions.

If you need a copy of any current USFR Memorandum, please visit our Web site at www.auditorgen.state.az.us or call the Office's Accounting Services Division at (602) 553-0333.